

NKANDLA MUNICIPALITY  
UNAUDITED  
ANNUAL FINANCIAL STATEMENTS



FOR THE YEAR  
ENDED 30 JUNE 2012

**NKANDLA MUNICIPALITY**

**ANNUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDING 30 JUNE 2012**

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## **NKANDLA MUNICIPALITY**

### **ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

#### **GENERAL INFORMATION**

<b>LEGAL FORM OF THE ENTITY:</b> MUNICIPALITY
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<b>JURISDICTION :</b> NKANDLA MAGISTRATE COURT
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#### **MEMBERS OF THE EXECUTIVE COMMITTEE**

Her Worship - The Mayor	: Cllr B.Z. Mncadi - Mpanza
Deputy Mayor	: Cllr T.O. Ndlela
Speaker	: Cllr B.M Ngcobo
Exco Member	: Cllr S.O Sibiya
Exco Member	: Cllr A.T. Ntuli
Exco Member	: Cllr B.W. Sibiya

#### **SPEAKER OF COUNCIL**

Total number of councilors: 27

#### **Grading of Municipality**

Grade 2 (in terms of Government Notice R1224 dated 1 December 2006)

#### **Auditors**

The Auditor-General  
Private Bag X9034  
PIETERMARITZBURG  
3200

**NKANDLA MUNICIPALITY**

**ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

**NKANDLA MUNICIPALITY**

**ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

**GENERAL INFORMATION (continued)**

**Bankers**

ABSA Bank of South Africa (Operating account)

**Registered office**

Maree Road , Lot 292	Private Bag x 161
Nkandla	Nkandla
3855	3855

Telephone (035) 833 2000  
Fax (035) 833 0920

**MUNICIPAL MANAGER**

ME Ngonyama (effective 18 July 2011)  
Matric, Executive Leadership Development Programme - Municipal Manager's Certificate  
(School of Public Administration and Development Management, UKZN)  
Certificate in Municipal Finance Management (Wits Business School)

**CHIEF FINANCIAL OFFICER**

Guarantee Trust Zululand (18 November 2011)  
B.B Mdletshe - Consulting Chief Financial Officer  
N.Dipl.Acc, SAIPA, ACIBM(SA), AIMFO, MBA

**NKANDLA MUNICIPALITY**

**REPORT OF THE AUDITOR-GENERAL**

**30 JUNE 2011**

The report of the Auditor-General South Africa will be inserted after the audit.

## STATEMENT OF THE MUNICIPAL MANAGERS RESPONSIBILITY

### **NKANDLA MUNICIPALITY ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

The Nkandla Municipality is situated Lot 292, Maree Road, Nkandla is a category B Municipality established in terms of section 12 (1) of the Municipal Structures Act, No.117 and published in terms of Provincial Government Notice 346 on the 19 September 2000. The Local Government Operations of the Municipality are assigned by section 156 and 229 of the South African Constitution and defined specifically in terms of section 83 of the Municipal Structures Act.

I am responsible for the preparation of these financial statements, which are set out on page 2 to 28 in terms of Section 126 (1) of the Municipal Finance Management Act, Act 56 of 2003 which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors as disclosed on note 12 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the remuneration of the Public Office Bearers and the Minister of Provincial and Local Government's determination in accordance with this act.

.....  
**Mr ME Ngonyama**  
**Municipal Manager**

**31-Aug-2012**

**NKANDLA MUNICIPALITY**

**STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2012**

	Note	2012 R	2011 R Restated
<b>ASSETS</b>			
<b>NON- CURRENT ASSETS</b>		<b>211 349 757</b>	<b>184 831 586</b>
Property, Plant and Equipment	3	211 120 370	184 580 056
Intangible Assets	4	191 387	213 530
Investments property	4.1	38 000	38 000
<b>CURRENT ASSETS</b>		<b>65 857 566</b>	<b>49 246 723</b>
Accounts receivables	6	5 866 652	9 185 270
VAT receivables	6	3 075 794	737 597
Cash and cash equivalents	5	56 915 120	39 323 856
<b>TOTAL ASSETS</b>		<b>277 207 323</b>	<b>234 078 309</b>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>		<b>235 183 993</b>	<b>195 855 497</b>
Accumulated Surplus/ (Deficit)	1	235 183 993	195 855 497
<b>NON CURRENT LIABILITIES</b>		<b>3 927 907</b>	<b>3 705 573</b>
Non-Current Provisions	7	3 927 907	3 705 573
<b>CURRENT LIABILITIES</b>		<b>38 095 424</b>	<b>34 517 243</b>
Provisions	7	6 148 297	808 672
Unspent Conditional Grant and Receipts	2	28 743 507	29 419 650
Accounts payables	8	3 203 620	4 288 921
<b>TOTAL LIABILITIES</b>		<b>42 023 331</b>	<b>38 222 816</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>277 207 324</b>	<b>234 078 313</b>

**NKANDLA MUNICIPALITY**

**STATEMENT OF FINANCIAL PERFORMANCE**

**FOR THE YEAR ENDED 30 JUNE 2012**

	Note	Actual 2012 R	Actual 2011 R
<b>REVENUE</b>			
Rental of Facilities and equipment		576 797	340 800
Interest Earned - External Investment		1 605 717	1 261 954
Interest Earned - Outstanding Receivables		66 686	117 987
Government and Provincial grants and subsidies	14	94 707 604	57 488 260
Property Rates		1 422 804	1 422 804
Refuse Removal		378 042	126 014
Sundry Income	15	386 004	585 103
Electricity		2 580 878	7 220 645
<b>TOTAL REVENUE</b>		<b>101 724 532</b>	<b>68 563 567</b>
<b>EXPENDITURE</b>			
Employee Related Costs	11	11 472 160	11 466 346
Remuneration of Councillors	12	4 872 124	4 881 049
Bad Debts	6	1 299 002	1 659 191
Depreciation	13	4 177 662	2 844 064
General expenses	16	29 966 494	15 288 328
Repairs and maintenance		498 723	661 125
Operating Lease	15	966 225	543 399
Finance Costs	7	222 334	205 573
Grant Expenditure		6 849 518	1 987 324
<b>Total Expenditure</b>		<b>60 324 241</b>	<b>39 536 399</b>
<b>Net Surplus/ (Deficit)</b>		<b>41 400 291</b>	<b>29 027 167</b>



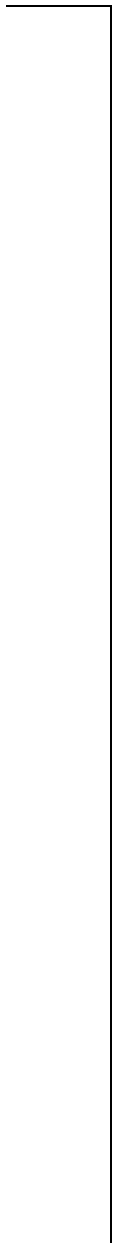
## AS AT JUNE 2011

VOTE NUMBER	DESCRIPTION	GL - AUDITED	FAR	VARIANCE	FAR 2012	GL	VARIANCE
		2011	2 011	2011	PPE	TB	
9100 04 4 01 0334	Opening WIP	8 656 107.55	9 331 411.86	-675 304.31	21 366 256.92	21 366 256.92	-0.00
9100 04 4 01 0350	Additions - WIP	-	-	-	-	-	-
9100 04 4 01 0351	Transfer WIP	0.87	-	0.87	-	-	-
9100 04 4 01 0500	Cost - Building	7 484 154.80	4 384 154.80	3 100 000.00	4 384 154.80	4 384 155.00	-0.20
9100 04 4 01 0501	Cost - Community Assets	30 409 627.00	27 254 754.90	3 154 872.10	27 910 861.82	27 910 861.82	-0.00
9100 04 4 01 0502	Cost - Infrastructure	35 549 980.00	35 549 980.18	-0.18	57 740 935.26	57 740 935.11	0.15
9100 04 4 01 0503	Cost - Land	104 005 940.00	104 005 939.79	0.21	104 005 939.79	104 005 940.00	-0.21
9100 04 4 01 0401	Cost - Land Investment Property	38 000.00	38 000.00	-	38 000.00	38 000.00	-
9100 04 4 01 0504	Cost - Office Equipment	130 646.00	130 646.27	-0.27	130 646.27	130 646.27	-
9100 04 4 01 0505	Cost - Computer Equipment	1 892 742.00	1 892 742.15	-0.15	2 014 627.46	2 014 627.31	0.15
9100 04 4 01 0506	Cost - Computer Software	318 053.00	346 438.23	-28 385.23	346 438.23	346 438.23	-
9100 04 4 01 0507	Cost - Furniture and Fittings	1 378 412.00	1 378 412.19	-0.19	1 378 412.19	1 378 412.19	-
9100 04 4 01 0508	Cost - Motor Vehicle	1 319 033.39	1 319 033.39	-	1 319 033.39	1 319 033.39	-
9100 04 4 01 0509	Cost - Plant & Machinery	1 699 363.00	1 699 363.00	-	1 699 363.13	1 699 363.00	0.13
9100 04 4 01 0510	Cost - Parkhome	243 426.00	243 425.96	0.04	243 425.96	243 426.00	-0.04
9100 04 4 01 0511	Cost - Landfill Site	2 892 561.98	2 892 562.00	-0.02	2 892 562.00	2 892 562.00	-
							-
		196 018 047.59	190 466 864.72	5 551 182.87	225 470 657.22	225 470 657.24	-0.02
			190 466 864.82	190 466 864.89			
ACCUMULATED DEPRECIATION		196 018 047.59					
VOTE NUMBER	DESCRIPTION	GL - AUDITED	FAR	VARIANCE	FAR 2012	TB 2012	Acc Depr
9100 04 4 01 0610	Cost - Land	-962 566.24	962 565.80	-0.44	-	-	-
9100 04 4 01 6000	Cost - Building	-962 566.24	962 565.80	-0.44	1 109 104.67	1 109 104.67	0.00
9100 04 4 01 6001	Cost - Community Assets	-3 332 716.00	3 332 715.98	-0.02	4 249 253.17	4 249 252.92	0.25
9100 04 4 01 6002	Cost - Infrastructure	-1 390 381.00	1 390 381.44	0.44	2 590 029.69	2 590 029.69	0.00
9100 04 4 01 6003	Cost - Office Equipment	-90 136.00	90 136.16	0.16	103 716.19	103 716.19	-0.00
9100 04 4 01 6004	Cost - Computer Equipment	-1 676 042.00	1 676 042.03	0.03	1 792 788.03	1 792 788.00	0.03
9100 04 4 01 6005	Cost - Computer Software	-104 523.00	104 523.14	0.14	155 051.33	155 051.33	-0.00
9100 04 4 01 6006	Cost - Furniture and Fittings	-1 016 559.00	1 016 559.31	0.31	1 135 011.22	1 135 011.22	0.00
9100 04 4 01 6007	Cost - Motor Vehicle	-1 088 678.00	1 088 677.61	-0.39	1 160 786.51	1 160 786.51	0.00
9100 04 4 01 6008	Cost - Parkhome	-7 495.00	7 494.51	-0.49	15 253.18	15 253.18	-0.00
9100 04 4 01 6009	Cost - Plant & Machinery	-1 094 218.00	1 094 217.91	-0.09	1 231 392.43	1 231 392.52	-0.09
9100 04 4 01 0610	Cost - Landfill Site	-385 147.00	385 146.61	-0.39	578 512.40	578 512.79	-0.39
			-		-		-
							-
		-11 148 461.24	12 111 026.30	-1.18	14 120 898.82	14 120 899.02	-0.20
			11 148 460.51				
Nett Book Value FAR & GL		184 869 586.35	178 355 838.42	5 551 181.69	211 349 758.40	211 349 758.22	0.18
		184 831 587.00			211 349 758.40	0.18	0.18
		37 999.35			0.00		

**NKANDLA MUNICIPALITY**

**CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2012**

	Note	2012 R	2011 R
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Cash receipts from ratepayers, government and other		111 627 739	59 671 299
Cash paid to suppliers and employees		(54 461 926)	(29 600 026)
Cash generated from operations		57 165 813	30 071 273
Interest received		1 672 403	1 379 941
Interest paid		(222 334)	(205 573)
<b>Net cash flows from operating activities</b>		<b>58 615 882</b>	<b>31 245 641</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	3	(26 540 314)	(10 667 102)
Proceeds on disposal of property, plant and equipment		-	-
Decrease in Government Grants		-	(6 829 337)
Decrease in non-current receivables		-	-
(Increase)/Decrease in non-current investments		-	-
<b>Net cash flows from investing activities</b>		<b>(26 540 314)</b>	<b>(17 496 439)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Decrease in Long Term Liabilities		-	-
Increase/(Decrease) in consumer deposits		-	-
Non-operating income receipted in provisions/reserves		-	-
Non-operating expenditure charged against provisions/reserves		-	-
<b>Net cash flows from financing activities</b>		<b>-</b>	<b>-</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>32 075 568</b>	<b>13 749 202</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>39 323 856</b>	<b>25 574 655</b>
<b>Cash and cash equivalents at the end of the year</b>		<b>56 915 120</b>	<b>39 323 856</b>
		<b>(17 591 264)</b>	<b>(13 749 201)</b>



**NKANDLA MUNICIPALITY**  
**ACCOUNTING POLICIES**  
for the year ended 30 June 2012

**1 BASIS OF ACCOUNTING**

**1.1 BASIS OF PRESENTATION**

The annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. These annual financial statements have been prepared in accordance with the Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

These standards are summarised as follows:

GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statement
GRAP 3	Accounting Policies , Changes in Accounting Estimates and Errors
GRAP 4	The Effects of Changes in Foreign Exchange Rates
GRAP 5	Borrowing Costs
GRAP 9	Revenue from Exchange Transactions
GRAP 12	Inventories
GRAP 13	Leases
GRAP 14	Events After the Reporting Date
GRAP 17	Property, Plant and Equipment
GRAP 19	Provisions, Contingent Liabilities and Contingent Assets
GRAP 100	Non-current Assets Held for Sale and Discontinued Operations
GRAP 102	Intangible Assets

Accounting policies for material transaction, events or conditions not covered by the above GRAP Standards have been developed in accordance with paragraph 7,11 and 12 of GRAP 3. These accounting policies and the applicable disclosures have been based on the South African Statements of Generally Accepted Accounting Practices (SA GAAP) including any interpretations of such Statements issued by the Accounting Practices Board.

A summary of the significant accounting policies have been consistently applied.

**NKANDLA MUNICIPALITY**  
**ACCOUNTING POLICIES**  
**for the year ended 30 June 2012**

**1.2 PRESENTATION CURRENCY**

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

**1.3 GOING CONCERN ASSUMPTION**

These annual financial statements have been prepared on a going concern basis.

**1.4 STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE**

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality:

GRAP 18	Segment Reporting - issued March 2005
GRAP 21	Impairment of Non-Cash-generating-assets - issued March 2009
GRAP 23	Revenue from Non-Exchange Transactions - issued February 2008
GRAP 24	Presentation of Budget Information - issued November 2007
GRAP 26	Impairment of Cash-generating-assets - issued March 2009
GRAP 103	Heritage Assets - issued July 2008
IAS 19	Employee Benefits - effective 1 January 2009
IFRIC 17	Distribution of Non-cash Assets to Owners - effective 1 July 2009

**2 PROPERTY, PLANT AND EQUIPMENT**

**2.1 INITIAL RECOGNITION**

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset's given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

**NKANDLA MUNICIPALITY  
ACCOUNTING POLICIES**

**for the year ended 30 June 2012**

**2.3 SUBSEQUENT MEASUREMENT - COST MODEL**

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. **Land** is not depreciated as it is deemed to have an indefinite useful life.

Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

**2.4 DEPRECIATION AND IMPAIRMENT**

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated average asset lives:

	<u>Years</u>	<u>Other</u>	<u>Years</u>
<b>Infrastructure</b>			
Roads and Paving	30	Buildings	30
Pedestrian Malls	30	Other vehicles	5
Electricity	20-80	Office equipment	3-7
		Furniture and fittings	7-10
<b>Community</b>			
		Bins and containers	5
Buildings	30	Other items of plant and equip	2-5
Recreational Facilities	20-30	Landfill sites	15
Security	5		

The residual value, the useful life of an asset and the depreciation method is reviewed annually and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The municipality tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

**2.5 DERECOGNITION**

Items of Property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

**NKADLA MUNICIPALITY  
ACCOUNTING POLICIES  
for the year ended 30 June 2012**

**3 INTANGIBLE ASSETS**

**3.1 INITIAL RECOGNITION**

An intangible asset is an identifiable non-monetary asset without physical substance. Examples include computer software, licenses, and development costs. The municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset's given up.

**3.2 SUBSEQUENT MEASUREMENT - COST MODEL**

Intangible assets are subsequently carried at cost less accumulated amortisation and impairments. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test.

**3.3 AMORTISATION AND IMPAIRMENT**

Amortisation is charged so as to write off the cost or valuation of intangible assets over their estimated useful lives using the straight line method. The annual amortisation rates are based on the following estimated average asset lives:

Computer software	5 years
-------------------	---------

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each reporting date and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The municipality tests intangible assets with finite useful lives for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of an intangible asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

**NKANDLA MUNICIPALITY  
ACCOUNTING POLICIES  
for the year ended 30 June 2012**

**3.4 DERECOGNITION**

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

**4 FINANCIAL INSTRUMENTS**

**4.1 SUBSEQUENT MEASUREMENT**

Financial instruments are initially recognised at fair value.

Financial Assets are categorised according to their nature as either financial assets at fair value through profit or

**4.2 RECEIVABLES**

Trade and other receivables are categorised as financial assets: loans and receivables and are initially recognised at fair value and subsequently carried at amortised cost. Amortised cost refers to the initial carrying amount, plus interest, less repayments and impairments. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. Impairments are determined by discounting expected future cash flows to their present value. Amounts that are receivable within 12 months from the reporting date are

**4.3 IMPAIRMENT OF TRADE RECEIVABLES**

An impairment of trade receivables is accounted for by reducing the carrying amount of trade receivables through the use of an allowance account, and the amount of the loss is recognised in the Statement of Financial Performance within operating expenses. When a trade receivable is uncollectible, it is written off. Subsequent recoveries of amounts previously written off are credited against operating expenses in the Statement of Financial Performance.

**4.4 FINANCIAL LIABILITIES: ACCOUNTS PAYABLE**

Financial liabilities consist of trade payables and borrowings. They are categorised as financial liabilities held at amortised cost, are initially recognised at fair value and subsequently measured at amortised cost which is the initial carrying amount, less repayments, plus interest.

**4.5 CASH AND CASH EQUIVALENTS**

Cash includes cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: loans and receivables.

**4.6 UNAUTHORISED EXPENDITURE**

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

**4.7 IRREGULAR EXPENDITURE**

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.



**NKANDLA MUNICIPALITY**  
**ACCOUNTING POLICIES**  
**for the year ended 30 June 2012**

**4.8 FRUITLESS AND WASTEFUL EXPENDITURE**

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

**4.9 PROVISIONS**

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate. Where the effect is material, non-current provisions are discounted to their present value using a pre-tax discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability (for example in the case of obligations for the rehabilitation of land).

The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

A provision for restructuring costs is recognised only when the following criteria over and above the recognition (b) The municipality has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

**5 COMPARATIVE INFORMATION**

**5.1 Current Year Comparatives**

Budgeted amount have been included in an annexure to these financial statements for current financial year only.

**5.2 Prior Year Comparatives**

When presentation or classification of items in the annual financial statements is amended, prior period comparatives amounts are restated. The nature and reason for the reclassification is disclosed. When there has been a change in the accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparative is restated accordingly.

**6 REVENUE**

**6.1 REVENUE FROM EXCHANGE TRANSACTIONS**

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the recorded number of refuse containers per property.

Interest revenue is recognised on a time proportion basis.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant gazetted tariff. This includes the issuing of licenses and permits.

Revenue from the sale of goods is recognised when substantially all the risks and rewards in those goods is passed to the consumer.

**NKANDLA MUNICIPALITY**  
**ACCOUNTING POLICIES**  
**for the year ended 30 June 2012**

**6.2 REVENUE FROM NON-EXCHANGE TRANSACTIONS**

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received.

Revenue from public contributions and donations is recognised when all conditions associated with the contribution Contributed property, plant and equipment is recognised when such items of property, plant and equipment qualifies for recognition and become available for use by the municipality.

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible Councilors or officials is virtually certain.

**7 GRANTS, TRANSFERS AND DONATIONS**

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset. A corresponding liability is raised to the extent that the grant, transfer or donation is conditional. The liability is transferred to revenue as and when the conditions attached to the grant are met. Grants without any conditions attached are recognised as revenue when the asset is recognised.

**14 TRANSITIONAL PROVISIONS**

The Municipality has complied with the following Accounting Standards Board, as set out in Directive 4 issued in March 2009 as follows:

GRAP 1	Presentation of Financial Statements - paragraphs 7-8A
GRAP 9	Revenue from Exchange Transactions - paragraphs 37-38
GRAP 17	Property, Plant and Equipment - paragraphs 73-83
GRAP 19	Provisions, Contingent Liabilities and Contingent Assets - paragraph 93-94E
GRAP 102	Intangible Assets - paragraph 110-118

**15 INVESTMENT PROPERTY**

**15.1 INITIAL RECOGNITION**

Investment property includes property held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

At initial recognition, the municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition. The cost of self-constructed investment property is the cost at date of completion. The residual value and useful value of the assets were reviewed at the end of the financial year end.

**15.2 SUBSEQUENT MEASUREMENT - COST MODEL**

Investment property is measured using the cost model. Under the cost model, investment property is carried at cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately.

Land is not depreciated.

The useful life of buildings is 7 years

**NKANDLA MUNICIPALITY  
ACCOUNTING POLICIES  
for the year ended 30 June 2012**

**16 INVESTMENTS**

Investments, which include listed, fixed deposits and short-term deposits invested in registered commercial banks, are categorised as either held-to-maturity where the criteria for that categorisation are met, or as loans and receivables, and are measured at amortised cost. Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified. Impairments are calculated as being the difference between the carrying amount and the present value of the expected future cash flows flowing from the instrument. On disposal of an investment, the difference between the

**NKANDLA MUNICIPALITY**  
**NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2012**

**1 ACCUMULATED SURPLUS**

Accumulated surplus at the beginning  
 Surplus at the end of the year  
 Correction of Prior Year error  
 Capital Development Fund  
 Public Improvement Fund  
 Public Improvement Fund Advances

2012 R	2011 R
195 855 496	166 828 329
41 400 291	29 027 167
(2 071 795)	-
-	-
-	-
-	-
<b>235 183 993</b>	<b>195 855 496</b>

**2. UNSPENT CONDITIONAL GRANT**

Finance Management Grant (FMG)  
 Municipal systems improvement grant(MSIG)  
 Electrification grant  
 Municipal infrastructure grant(MIG)  
 Elearning Grant  
 Sports and Recreation  
 Cyber cadet grant  
 Small Town rehabilitation grant  
 Qedisimo Project  
 Facility Grant  
 Library Grant  
 Housing development grant

201 224	288 208
41 012	307 554
14 576 658	9 324 112
6 764 713	8 561 236
167 231	167 230
(1 556 316)	137 051
421 993	54 213
5 087 509	10 580 046
2 750 000	
750 000	
(183 169)	
(277 346)	
<b>28 743 507</b>	<b>29 419 650</b>

**NKANDLA MUNICIPALITY**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDING 30 JUNE 2012**

**Note: 5.2. PROPERTY, PLANT AND EQUIPMENT (continued)**

2012	Reconciliation of carrying value	Land	Buildings	Other Structures	Landfill site	Other	Furniture & Office Equipment	Computer equipment	Motor vehicle	WIP	Total
		R	R	R	R	R	R	R	R		R
	<b>As at 1 July 2011</b>	<b>104 005 940</b>	<b>6 757 520</b>	<b>61 236 510</b>	<b>2 507 415</b>	<b>645 655</b>	<b>361 853</b>	<b>216 700</b>	<b>230 355</b>	<b>8 656 108</b>	<b>184 618 056</b>
	Costs/Valuation	104 005 940	7 727 581	65 959 607	2 892 562	1 830 009	1 378 412	1 892 742	1 319 033	8 656 108	195 661 994
	Change in accounting estimate	0	0	0	0	0	0	0	0	0	0
	Accumulated depreciation and impairment losses	0	( 970 061)	(4 723 097)	( 385 147)	(1 184 354)	(1 016 559)	(1 676 042)	(1 088 678)	0	(11 043 938)
	Acquisitions	0	0	22 190 955	0	0	0	121 885	0	12 710 148	35 022 988
	Work In Progres		0	0							0
	Depreciation	0	( 154 297)	(2 116 186)	( 193 366)	( 150 755)	( 118 452)	( 116 746)	( 72 109)	( 67 933)	(2 989 842)
	Disposal		(3 100 000)	(2 498 765)						0	(5 598 765)
											0
	Impairment loss	0	0	0	0	0	0	0	0	0	0
	Reversal of impairment loss	0	0	0	0	0	0	0	0	0	0
	<b>As at 30 JUNE 2012</b>	<b>104 005 940</b>	<b>3 503 223</b>	<b>78 812 514</b>	<b>2 314 049</b>	<b>494 900</b>	<b>243 401</b>	<b>221 839</b>	<b>158 246</b>	<b>21 298 323</b>	<b>211 120 370</b>
	Costs/Valuation	104 005 940	4 627 581	85 651 797	2 892 562	1 830 009	1 378 412	2 014 627	1 319 033	21 366 256	225 086 217
	Accumulated depreciation and impairment losses	0	(1 124 358)	(6 839 283)	( 578 513)	(1 335 109)	(1 135 011)	(1 792 788)	(1 160 787)	( 67 933)	(13 965 848)

Refer to Appendix A for more detail on property, plant and equipment

**Note : 5.2 PROPERTY, PLANT AND EQUIPMENT**

2011	Reconciliation of carrying value	Land	Buildings	Other Structures	Landfill site	Other	Furniture & Office Equipment	Computer equipment	Motor vehicle	WIP	Total
		R	R	R	R	R	R	R	R	R	R
	<b>As at 1 July 2010</b>	<b>104 005 940</b>	<b>6 910 622</b>	<b>32 119 008</b>	<b>2 530 992</b>	<b>753 055</b>	<b>442 528</b>	<b>482 142</b>	<b>352 350</b>	<b>4 058 018</b>	<b>245 870 860</b>
	Costs/Valuation	104 005 940	7 727 581	36 231 614	2 892 562	1 790 628	1 332 259	1 768 217	1 319 033	4 058 018	482 428 637
	Change in accounting policy	-	-	-	-	-	-	-	-	-	-
	Accumulated depreciation and impairment losses	-	-816 959	-4 112 606	-361 570	-1 037 573	-889 731	-1 286 075	-966 683	-	-236 557 777
	Acquisitions	-	-	29 727 993	-	39 381	46 153	124 525	-	4 598 091	29 938 052
	Depreciation	-	-153 102	-610 491	-23 577	-146 781	-126 828	-389 967	-121 995	-	-1 572 741
	Impairment loss	-	-	-	-	-	-	-	-	-	-
	Reversal of impairment loss	-	-	-	-	-	-	-	-	-	-
	<b>As at 30 June 2011</b>	<b>104 005 940</b>	<b>6 757 520</b>	<b>61 236 510</b>	<b>2 507 415</b>	<b>645 655</b>	<b>361 853</b>	<b>216 700</b>	<b>230 355</b>	<b>8 656 109</b>	<b>184 618 057</b>
	Costs/Valuation	104 005 940	7 727 581	65 959 607	2 892 562	1 830 009	1 378 412	1 892 742	1 319 033	8 656 109	195 661 995
	Accumulated depreciation and impairment losses	-	-970 061	-4 723 097	-385 147	-1 184 354	-1 016 559	-1 676 042	-1 088 678	-	-11 043 938

Refer to Appendix A for more detail on property, plant and equipment

## 24 EMPLOYEE BENEFITS

All Councillors and Employees belong to the following funds within the Natal Joint Municipal Pension fund which provides retirement benefits to such employees.

The retirement plan is subject to the Pension Funds Act, 1956

In accordance with the regulations governing the Fund and in compliance with Section 16 of the Pension Funds Act, 1956 (Act No. 24 of 196) the financial position of the Fund is examined and reported upon but the Valuator at intervals not exceeding three years.

In practice the Valuator conducts a statutory valuation on a triennial basis and an interim on an annual basis.

Interim Valuations of the Fund as at 31 March 2006 and Report on the Operations of the Memorandum Account for the Year Ended 31 March 2006.

In respect of Service to 31 March 2006 the actuarial value of the total assets was R121,7 million more than the actuarial value of the liabilities for the service of members to that date and for pensioners, made up as follows:

- surplus of R210,0 million in respect of pensioners (funding level 119,4%)
- deficit of R88,3 million in respect of members (funding level 95,0%) of which deficit
- about R49,0 million was attributable to salary increases being higher than expected (the average salary increased by 9,7% over the three years which is substantially in excess of inflation).

The Fund was thus 104,3% funded. The Fund did not hold an investment reserve.

Statutory Valuations of the Fund as at 31 March 2006 and Report on the Operations of the Memorandum Account for the Year Ended 31 March 2006.

In respect of Service to 31 March 2006 the actuarial value of the total assets was R140,9 million less than the actuarial value of the liabilities for the service of members to that date and for pensioners, made up as follows:

- surplus of R63,4 million in respect of pensioners (funding level 116,2%)
- deficit of R204,3 million in respect of members (funding level 73,0%) attributed to salary increases being higher than expected (the average salary increased by 11,1% over the three year period which is substantially in excess of inflation).

**25 Councillor's arrear consumer accounts**

	Total	Outstanding Less than 90 Days	Outstanding More than 90 Days
No councillors had arrear accounts outstanding for more than 90 days as at:			
	-	-	-
<b>As at 30 June 2012:</b>	-	-	-
There were no councillor's arrears consumer accounts during 2011.	-	-	-
	-	-	-
<b>As at 30 June 2011</b>	-	-	-
There were no councillor's arrears consumer accounts during 2010.	-	-	-
<b>Total Councillor Arrear Consumer Accounts</b>	-	-	-

**NKANDLA MUNICIPALITY**  
**STATEMENT OF CHANGES IN NET ASSETS**  
**as at 30 June 2012**

	Notes	Accumulated Surplus/ Dificit  R	Total  R
2 011			
Restated Balance as at 1 July 2010		166 828 329	166 828 329
Change in accounting policy		-	-
<b>Restated Balance</b>		<b>166 828 329</b>	<b>166 828 329</b>
Surplus/(deficit) for the year		29 027 167	29 027 167
Correction of Prior Year Error	26	-	-
<b>Balance as at 30 June 2011</b>		<b>195 855 496</b>	<b>195 855 496</b>
Surplus/(deficit) for the year		41 400 291	41 400 291
Correction of Prior Year Error		-2 071 792	-2 071 792
<b>Balance as at 30 June 2012</b>		<b>235 183 993</b>	<b>235 183 993</b>

**NKANDLA MUNICIPALITY**  
**APPENDIX A**  
**CONDITIONAL GRANTS AND RECEIPTS AT 30 JUNE 2012**

	Balance at 01/7/2011 R	Receipts during the year R	expenditure during the year R
<b>UNSPENT CONDITIONAL GRANTS</b>			
Finance Management Grant (FMG)	288 208	1 500 000	1 586 984
Municipal systems improvement grant(MSIG)	307 554	790 000	1 056 542
Municipal infrastructure grant(MIG)	8 561 236	28 902 000	30 698 523
Cyber cadet grant	54 213	119 000	(248 780)
Small Town rehabilitation grant	10 580 046	4 000 000	9 492 537
Elearning Grant	167 230	-	(1)
Library grant	-	233 340	416 509
Facility Grant	-	750 000	-
Qedisimo Projects	-	2 750 000	-
Electrification grant	9 324 112	12 000 000	6 747 454
Sports and Recreation	137 051	-	1 693 367
Housing Development			277 346
<b>TOTAL</b>	<b>29 419 650</b>	<b>51 044 340</b>	<b>51 720 483</b>



Balance at  
30/06/2012

R

201 224

41 012

6 764 713

421 993

5 087 509

167 231

(183 169)

750 000

2 750 000

14 576 658

(1 556 316)

(277 346)

**28 743 507**

**NKANDLA MUNICIPALITY**  
**APPENDIX B**  
**ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AT 30 JUNE 2012**

	Historical Cost						Accumulated Depreciation				
Description	Opening Balance Cost	Additions / Write-Ons	Disposals / Write-Offs	Under Construction	Closing Balance		Opening Balance	Depreciation	Disposals / Write-Offs	Closing Balance	Carrying Value
	R	R	R	R	R		R	R	R	R	R
Land	-				-					-	-
Undeveloped land	104 005 940	-0	-	-	104 005 940	-	-	-	-	-	104 005 940
	104 005 940	-0	-	-	104 005 940	-	-	-	-	-	104 005 940
Buildings					-					-	-
Park Home	243 426	-0			243 426	7 495	7 758.18		15 253	-	228 173
Non residential structures	7 484 155	-0	-3 100 000		4 384 155	962 566	146 538.43		1 109 105	-	3 275 050
	7 727 581	-0	-3 100 000	-	4 627 581	970 061	154 297	-	1 124 358	-	3 503 223
Other structures					-					-	-
Community Assets	30 409 627	-0	-2 498 765		27 910 862	3 332 716	916 536.92		4 249 253	-	23 661 609
Infrastructure	35 549 980	22 190 955			57 740 935	1 390 381	1 199 648.69		2 590 030	-	55 150 905
	65 959 607	22 190 955	-2 498 765	-	85 651 797	4 723 097	2 116 186	-	6 839 283	-	78 812 514
Solid Waste Disposal					-					-	-
Landfill site	2 892 562	-	-	-	2 892 562	385 147	193 365.79	-	578 513	-	2 314 049
	2 892 562	-	-	-	2 892 562	385 147	193 366	-	578 513	-	2 314 049
Other equipment					-					-	-
Office Equipment	130 646	0			130 646	90 136	13 580		103 716	-	26 930
Machinery and Equipment	1 699 363	-			1 699 363	1 094 218	137 175		1 231 393	-	467 970
	1 830 009	0	-	-	1 830 009	1 184 354	150 755	-	1 335 109	-	494 901
Furniture and office equipments	1 378 412	0	-		1 378 412	1 016 559	118 452		1 135 011	-	243 401
	1 378 412	0	-	-	1 378 412	1 016 559	118 452	-	1 135 011	-	243 401
Computer Equipments					-					-	-
Computer Hardware	1 892 742	121 885	-	-	2 014 627	1 676 042	116 746	-	1 792 788	-	221 839
	1 892 742	121 885	-	-	2 014 627	1 676 042	116 746	-	1 792 788	-	221 839
Transport Assets					-					-	-
Motor Vehicle	1 319 033	0	-	-	1 319 033	1 088 678	72 109	-	1 160 787	-	158 247
	1 319 033	0	-	-	1 319 033	1 088 678	72 109	-	1 160 787	-	158 247
Intangibles					-					-	-
Intangible asset					-					-	-
Computer Software	318 053	28 385	-	-	346 438	104 523	50 528	-	155 051	-	191 387
	318 053	28 385	-	-	346 438	104 523	50 528	-	155 051	-	191 387
Investment property					-					-	-
	38 000	-	-	-	38 000	-	-	-	-	-	38 000
	38 000	-	-	-	38 000	-	-	-	-	-	38 000
Transfer to WIP	-	67 393	-	-	67 393	-	-	-	-	-	67 393
	-	67 393	-	-	67 393	-	-	-	-	-	67 393
					-					-	-
SUBTOTALS CARRIED FORWARD	187 361 939	22 341 226	(5 598 765)	-	204 104 400	-	11 148 461	2 972 438	-	14 120 899	189 983 501
	-	-	-			-	-	-	-	-	
WIP	8 656 108	12 710 148		-	21 366 256	-			-	-	21 366 256
TOTAL	196 018 047	35 051 374	(5 598 765)	-	225 470 656	-	11 148 461	2 972 438	-	14 120 899	211 349 757

**NKANDLA MUNICIPALITY**

**APPENDIX D**

**ANALYSIS OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2012**

Restated Actual 2011 R		Actual 2012 R	Budget 2011 R
	<b>INCOME</b>		
<b>42 433 569</b>	<b>Government and Provincial grants and subsidies</b>	<b>94 707 604</b>	<b>83 886 000</b>
34 331 846	- Equitable share	40 191 000	44 648 000
8 101 723	- National / Provincial Government	54 516 604	39 238 000
-	- Public / Local Government	-	-
<b>10 514 327</b>	<b>Operating Income</b>	<b>6 054 143</b>	<b>7 761 540</b>
1 422 804	- General Rates	1 422 804	1 600 000
384 719	- Penalties	20 044	110 340
117 987	- Interest on debtors	66 686	
1 219 903	- Interest on Investments	1 576 599	1 220 258
8 206	- Cemeteries	-	4 000
14 049	- Library	9 090	8 000
126 014	- Refuse Removal	378 042	340 565
7 220 645	- Electricity sales	2 580 878	4 478 377
<b>657 413</b>	<b>Other income</b>	<b>933 667</b>	<b>1 006 500</b>
141 887	- Miscellaneous	-	541 600
84 256	- Tender Monies	78 681	45 000
1 217	- Wood sales	1 408	400
18 583	- Hall Hire	36 666	20 000
	Burial fees	1 967	2 000
340 800	- Rent	576 797	355 000
4 474	- Plant hire	-	6 000
2 933	- TLB Income	7 623	
	Sportsfield	9 373	
	Refund Expenditure	163 193	
	Taxi rank permit	11 223	
	Lindela Services	16 500	
-	Taxi and bus stand license	6 645	
5 882	- Connection fee	10 000	30 000
11 194	- Licence and permits	-	6 500
46 187	- Commision Recieved	13 591	-
<b>42 051</b>	<b>Interest earned</b>	<b>29 118</b>	
<b>53 647 360</b>	<b>TOTAL INCOME</b>	<b>101 724 532</b>	<b>92 654 040</b>
	<b>EXPENDITURE</b>		
	<b>OPERATING EXPENDITURE</b>		
16 347 395	Salaries, wages and allowances	16 344 284	21 657 729
20 540 555	General expenses	29 966 494	27 175 341
	Depreciation	4 177 662	2 327 938
661 125	Repairs and maintenance	498 723	2 342 161
-	Operating lease expence	966 225	
-	Finance costs	222 334	
-	Increase in provision for bad debts	1 299 002	
-	Contributions to funds	6 849 518	39 150 870
1 987 324	Contributions to projects		
39 536 399	Gross operating expenditure	60 324 241	92 654 039
-	Less : Amounts recharged	-	-
<b>39 536 399</b>	<b>Net operating expenditure</b>	<b>60 324 241</b>	<b>92 654 039</b>
<b>14 110 960</b>	<b>SURPLUS/(DEFICIT)</b>	<b>41 400 291</b>	<b>1</b>